

Cutting the Cord: Consumer Profiles and Carrier Strategies for Wireless Substitution

Executive Summary

Mobile wireless services have become a viable alternative to traditional landline services for a large number of consumers in the US. With landline-to-wireless number portability introduced as part of the FCC's Wireless Local Number Portability (**WLNP**) mandate, which was implemented by wireless carriers in November 2003, consumers now have an unprecedented degree of flexibility and convenience in cutting the cord to their landlines.

While some barriers still exist to the widespread displacement of landlines by wireless phones, consumer attitudes clearly illustrate the potential for wireless substitution as the landline subscriber base and value proposition relative to wireless continue to deteriorate.

Current Market

About 9.4% of wireless subscribers already use a wireless phone as their primary telephone. Those who are considering substitution are primarily motivated by the prospect of saving money, as long as they don't have to give up much in terms of quality, reliability, or services.

Opportunities

Wireless subscribers are seeking alternatives to traditional landline calling. At present, 32.9% of our respondents report using their landline only for local calls (substituting wireless for long distance). **8.4%** of respondents also use Voice over IP for calling. This suggests that the market is primed for further wireless substitution.

- Among those with a wireless and landline phone, resistance to wireless substitution has dropped dramatically since our previous survey in 2003. Those answering "No" **to** the question, "Would **you** be willing **to** consider replacing your landline phone with **a** wireless phone?" declined from **73.6% to 49.0%**. Consumers are beginning to see the advantage and the opportunity.
- Carrier marketing will have a significant role in determining how many wireless subscribers choose to substitute wireless for landline. This is more a battle over perception than it is superior technology. Carriers can stimulate substitution by

continuing to attract customers to advanced wireless features, and educating them as to the availability of number portability.

Motivators

Factors that would influence consumers to drop their landline phone in favor of wireless include **better** prices, improved network coverage and quality-of-service, and richer mobile phone functionality.

Barriers

Barriers to landline replacement, particularly in-building coverage and perceived inconvenience (such as losing DSL or the having to change the phone number), are resolvable with other technologies, continued network build-out, or consumer education. All of these barriers will become less significant over the forecast period.

In-Stat's Consumer Mobility Survey results **suggest** two primary **areas** in which technology solutions could help increase substitution:

- For all consumers, devices that improve in-building coverage. This would primarily include in-building signal boosters and repeaters (not cheap "patch" antennas which do little to nothing).
- For consumers who want total substitution, technology that allows connection of data devices (which formerly required an analog landline phone jack) to the wireless phone, or which replaces the need for analog devices altogether.

User Profiles

Analysis of survey results found that consumer demographics do not **offer** much insight into the likelihood of a consumer using a wireless phone as their primary phone. Instead, the greatest correlation was with their current **use** of mobile phones. The most likely to use mobile as the primary phone have the following characteristics:

- Heavy wireless phone users (in terms of Minutes of Use)
- Use wireless for both business and professional purposes
- Spend more than average on wireless monthly service
- Are interested in advanced wireless data services such as **email**, gaming, music, etc.

Established heavy users of wireless present a ready market, however, youth will be a significant market in the near term **as** well. Youth, not being as accustomed to having a

landline phone of their own, will find it easier to stay with their first phone ~~than~~ older users who have to wean themselves off a landline service.

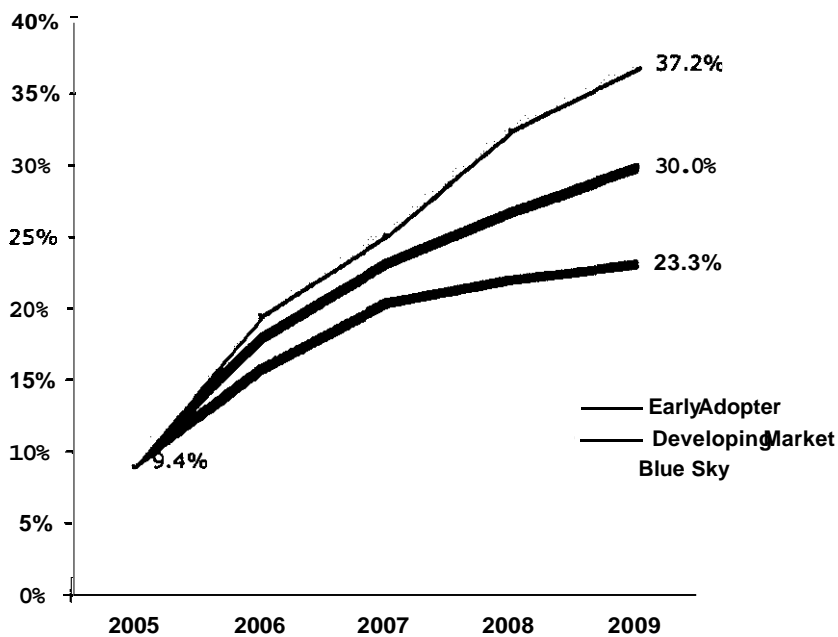
Forecast

Between 23.3% and 37.2% of wireless subscribers will use wireless as their primary phone by 2009. Our mid-range (most likely) estimate is 30.0% by 2009.

In-Stat predicts a significant increase in wireless substitution in the US over the four-year period from 2005 to 2009. In-Stat has prepared three forecast scenarios: (1) Early Adopter; (2) Developing Market; and (3) Blue Sky.

Each scenario assumes varying degrees of influence from key market factors, but In-Stat believes that the Developing Market forecast, which predicts that 30.0% of wireless subscribers will not have a landline by 2009, is the most likely outcome.

Wireless Substitution Forecast, 2005–2009



Source: In-Stat. 9/05

Methodology

Data collection and analysis for this report is derived from primary and secondary research on the US mobile wireless market.

Primary research came from the Consumer Mobility Study conducted by In-Stat in January **2005**, as well as information from wireless carriers, landline service providers, and infrastructure and device vendors from January through August **2005**. Secondary research came from the Federal Communications Commission (FCC), the Cellular Telephony and Internet Association (CTIA), US Census Bureau, and various third-party articles published on the subjects of wireless substitution and landline displacement trends.

This research forms the foundation of the forecasts in this report.

NOTE: Not all figures may calculate exactly due to rounding. Figures were calculated at a higher degree of precision than shown.

Consumer Mobility **Study (CMS) Methodology**

- Data for the Consumer Mobility Study (CMS) was collected via professionally administered structured telephone interview and online surveys.
- Each interview took approximately **15** minutes to complete.
- A total of **1,238** interviews were completed during January **2005**
- In order to participate in the study, respondents had to be at least 18 years of age, live in the United States, and currently use a cellular telephone.

Introduction

At the beginning of this research project, In-Stat established four key objectives:

- Determine the potential extent of wireless substitution among US consumers.
- Profile the characteristics of the wireless subscribers most likely to be primary-wireless users and those most likely to replace their landline.
- Discover the key drivers of, and inhibitors to, landline replacement.
- Model a four-year forecast ~~of~~ wireless substitution patterns in the US consumer market.

This report is organized into four main sections:

- Overall Results—An overview of Consumer Mobility Survey responses to five key questions:
 - Do you **use** a landline phone?
 - Would you consider replacing your landline phone with a wireless phone?
 - How likely are you to replace your landline phone with a wireless phone in the next 12 months?
 - What factors would increase your likelihood to replace your landline phone with a wireless phone?
 - Why wouldn't you consider replacing your landline local phone with a wireless phone?
- Consumer Profiles — Behavioral and demographic profiles of consumers most likely to consider replacing their landline with wireless. Also, services most likely to be adopted by those consumers.
- Technology Enablers and Barriers — A review of technology issues that could either stimulate or mitigate wireless substitution.
- Wireless Substitution **Forecasts**—Contains three different outlooks, Early Adopter, Developing Market, and Blue Sky forecasts, each reflecting variances in key substitution influencers and inhibitors during the four-year period from **2005** to 2010.

Overall Results

What follows, based on the In-Stat Consumer Mobility Survey, is an outline of US mobile consumer preferences and attitudes related to the use of wireless phones as primary phones, as well as the likelihood of replacing landlines altogether with a wireless phone.

The following section of this report, “Consumer Profiles,” will delve more deeply into the behavioral and demographic factors that make wireless subscribers more or less likely to use their wireless phone as their primary phone.

All respondents surveyed are current wireless subscribers over the age of 18.

All survey respondents were asked:

- Do you currently have a landline phone?

Respondents who responded “Yes” were asked:

- Would you consider replacing your landline phone with a wireless phone?

Survey participants who responded “Yes” to the above question were asked:

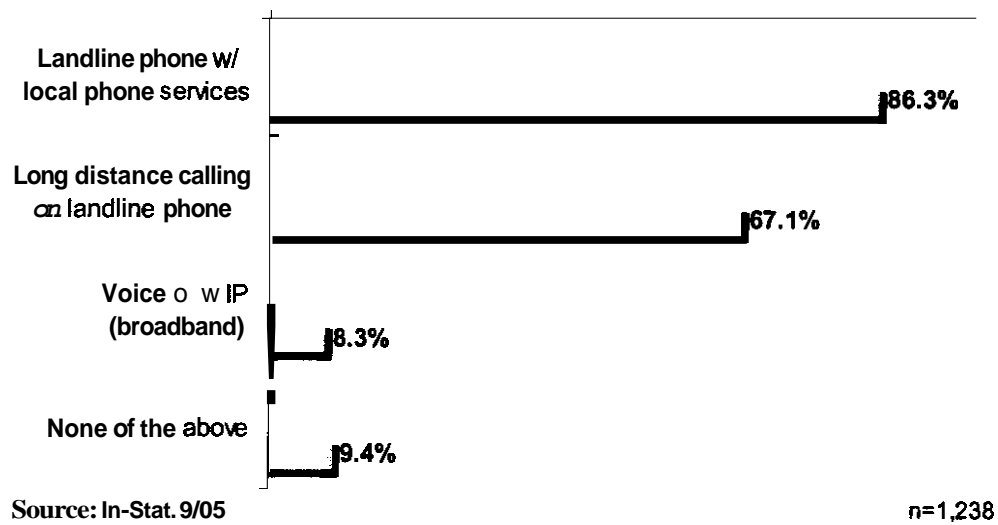
- How likely are you to replace your landline with a wireless phone in the next 12 months?
- What factors would increase your likelihood to replace your landline phone with a wireless phone?

Survey participants who responded “No” when asked if they would consider replacing their landline phone were asked:

- Why wouldn’t you consider replacing your landline local phone with a wireless phone?

Do You Currently Have a Landline Phone?

- Of the 1,238 survey respondents answering this question, 86.3% said that they currently have a landline phone. 9.4% said they had no phone other than their wireless phone (and hence wireless is their primary phone).
- Interestingly, only 67.1% of respondents used long distance services on their landline phone (about three quarters of landline phone users in the survey), suggesting that wireless is eroding the usage of wireline long distance and local toll services twice as much as the rate of complete wireless substitution.

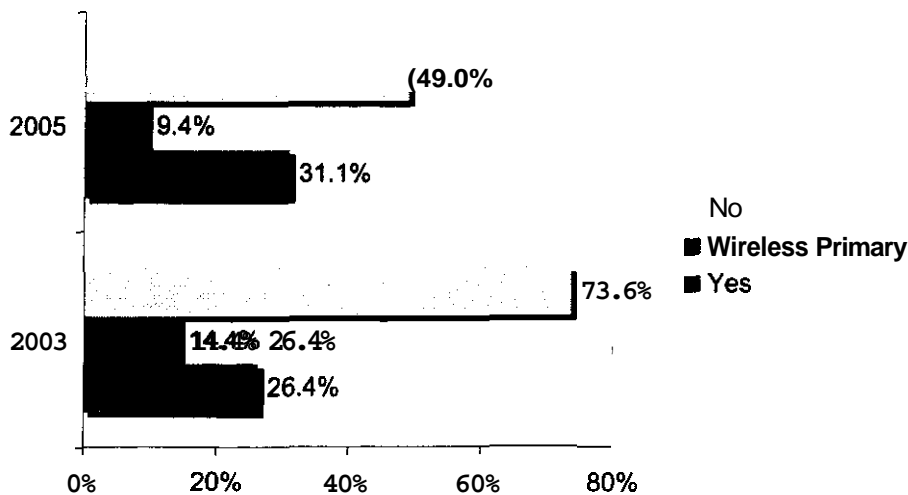


Willingness to Consider Replacing Landline with Wireless

- Of the 1,069 respondents who had both landline and wireless phones, 31.1% said that they would consider replacing their landline with wireless and 49.0% answered that they would not consider substitution. This indicates a moderate rise in willingness to consider wireless substitution. In our previous survey (July 2003), only 26.4% were willing to consider substitution.
- More important, resistance to wireless substitution has dropped dramatically, from 73.6% to 49.0%. Consumers are beginning to see the advantage and the opportunity of replacing their landline with wireless.

Figure 3. Overall: Willingness to Replace Landline with Wireless

Would you consider replacing your landline phone with a wireless phone? (Base: Has both wireless and landline phone)



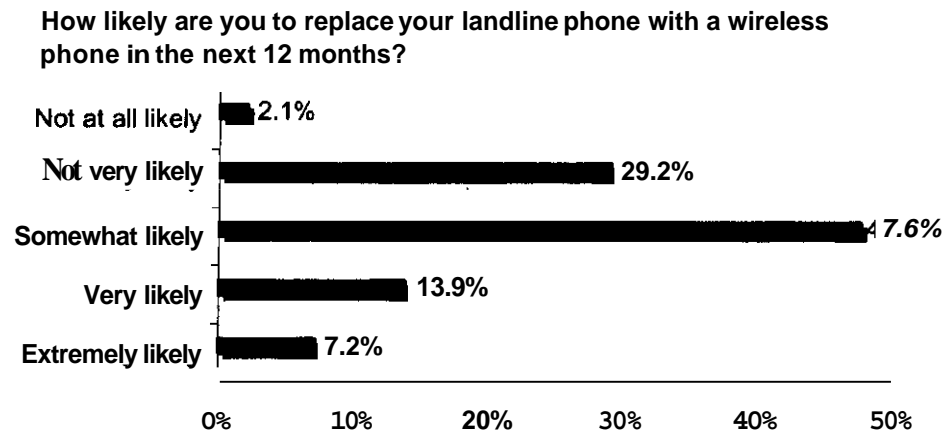
Source: In-Stat, 9/05

n=1,069

Likelihood to Replace Landline Phone with Wireless in Next 12 Months

The 332 respondents who indicated they were willing to replace their landline phone with a wireless phone were asked how likely they were to make the switch in the next 12 months. Slightly more than one in five (21.1%) were very or extremely likely to do so.

Figure 4. Overall: Likelihood to Replace Landline with Wireless in the Next 12 Months



Source: In-Stat, 9/05

n=332

Factors that Would Drive Wireless Substitution

Among respondents who answered that they were likely to consider wireless substitution, the top factors that would influence them to do so are lower wireless prices for monthly service (77.4%), flat-rate calling plans (72.6%), and number portability (61.7%).

Better network coverage, which was considered an important factor by only 25.1% of respondents in the 2003 survey, was named by 54.8% of respondents when the question was asked again in the latest (2005) survey. The question was modified slightly in the 2005 survey to specify “coverage in your *home*.” When asked about the importance of coverage “around *town*,” the response was 46.1%, still substantially higher than the response in the earlier survey.

These responses suggest that wireless substitution is driven by perceived cost savings rather than convenience.

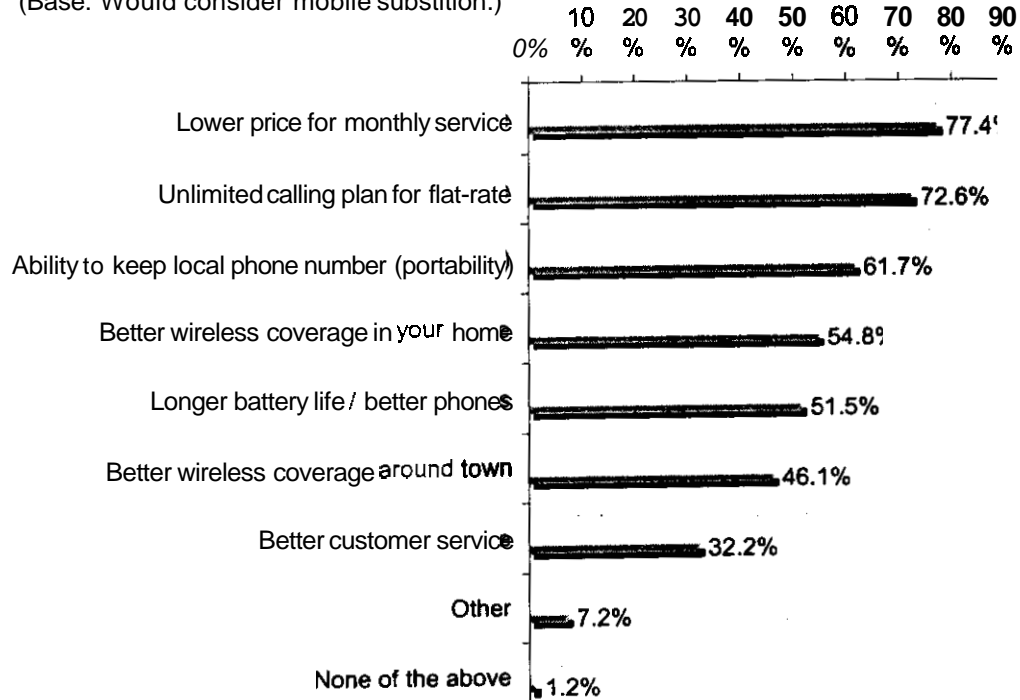
The survey responses also underscore the need for wireless carriers to continue strong capital investments in network expansion and improvement of in-building coverage. Carriers may find that emphasizing number portability (~~from~~landline to wireless) is an effective marketing technique as well.

It is also interesting to note that one third of the respondents would consider replacing wired phones with wireless phones if the carriers improved their customer service. Please see IN0502093MCM *Wireless Customer Service: Not Over the Hump Yet* (October, 2005) for more information on this topic.

Figure 5. Overall: Factors That Would Drive Wireless Substitution

What factors do you think would increase your likelihood to replace your landline phone with a wireless phone? (Multiple answers allowed.)

(Base: Would consider mobile substitution.)



Source: In-Stat, 9/05

n=332

Factors that Would Inhibit Wireless Substitution

The **524** survey respondents who would not consider replacing their landline with a wireless phone cited several factors as having roughly equal importance to their decision. Among these, voice quality was most often mentioned (39.5%). In-building coverage was also a large factor. Together, these factors imply that wireless carriers still need to improve network performance to rival that of landline.

Use of landline for data services (**DSL**, security systems, television systems and alarm systems) is also a significant reason for many subscribers not to switch. Customers want to retain their legacy data services, and this seems to outweigh their interest in wireless substitution. To further encourage substitution and promote their strategies at the optimum time, wireless carriers need to consider the availability of solutions that would eliminate the technological need for landline data services, or at least reduce the need for analog landlines for security, television and alarm systems.

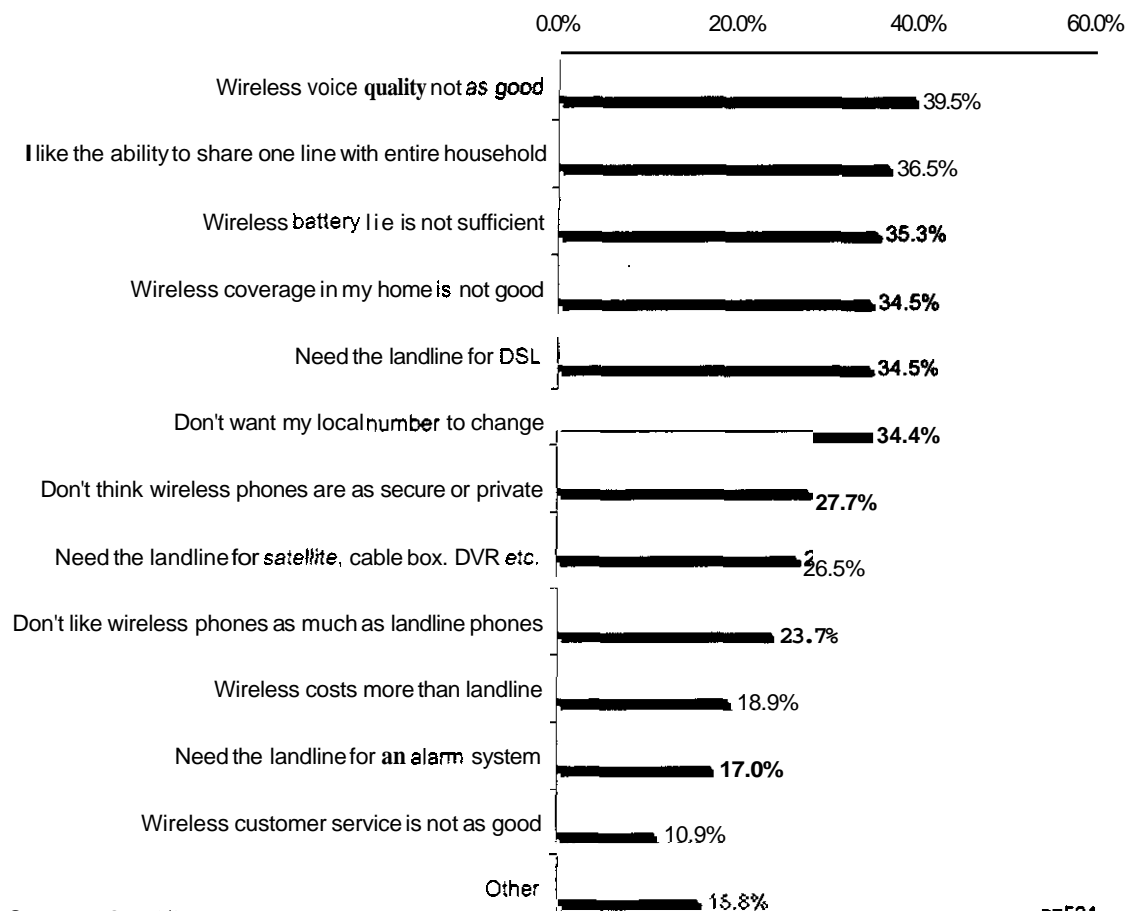
Again, number portability is a hot button for consumers, with **34.4%** indicating the prospect of losing their local number as a reason not to switch. Carriers looking to increase their rate of wireless substitution would do well to educate consumers as to the availability of number porting, digital call security, and calling plans which help subscribers control their costs.

Figure 6. Overall: Factors That Would Inhibit Wireless Substitution

Why wouldn't you consider replacing your landline phone with a wireless phone?

(Multiple answers allowed.)

(Base: Would NOT consider mobile substitution.)



Source: In-Stat. 9/05

n=524

Consumer Profiles—Likelihood to Replace Landline with a Wireless Phone

This section, based on cross-tabulation of survey results with behavioral and demographic responses from other sections of the Consumer Mobility Study, illustrates the main characteristics of those consumers who are most likely to consider replacing their landline phone.

- Overall, the results demonstrate that wireless substitution is much more correlated with behavioral patterns than with traditional household demographics.
- Not surprisingly, customers who are heavy wireless users, who are willing to spend more on their next phone to get advanced features, and who use their phones for both business and personal reasons, are much more likely than average to be willing to consider substituting wireless for their landline phone. In short, familiarity **with** wireless increases interest in substitution for landline.

Table 1. Summary Table **Of** Consumer Characteristics and Groups Most Likely And Least Likely To Consider Replacing Their Landline With A Wireless Phone

	Most likely to replace	Least likely to replace
Carrier preferences	Alltel, US Cellular	Verizon, Cingular/AT&T Wireless, Sprint PCS
Age group	30-39	55+
Landline Carrier	Comcast, Sprint, Cox	Qwest, SBC, Southwestern Bell, Pacific Bell, Ameritech
Advanced features	Digital music, wireless email	Voice only
Gender	Male	Female
Profession	Executive, Sales	Self-employed, Retired, Consultant
Business and personal use	Both	Business only
Household income	>\$35,000	<\$35,000
Wireless spending	>\$75/mo.	<\$30/mo.
Monthly minutes of use	>1500 minutes/mo.	<180 minutes/mo.

Demographics

There were very few statistically significant correlations between most demographic characteristics and the willingness to replace their landline with a wireless phone.

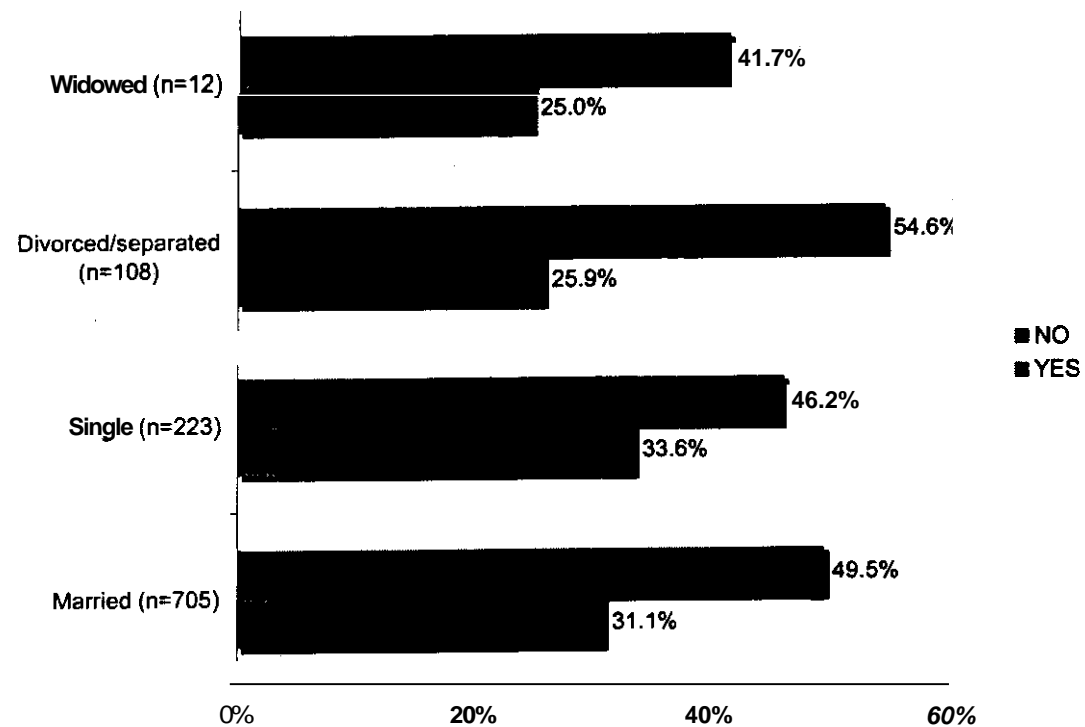
The weakest connections were in marital status, residence location, gender, size of household, and education level.

Marital Status

Survey results demonstrated no significant correlation between marital status and likelihood to replace landlines with wireless phones.

Figure 7. Marital Status: Likelihood to Replace Landline with a Wireless Phone

Would you consider replacing your landline phone with a wireless phone? (Base: Has both landline and wireless phone)



Note: "Don't Know" represents balance of responses.

Source: In-Stat, 9/05

n=1,048

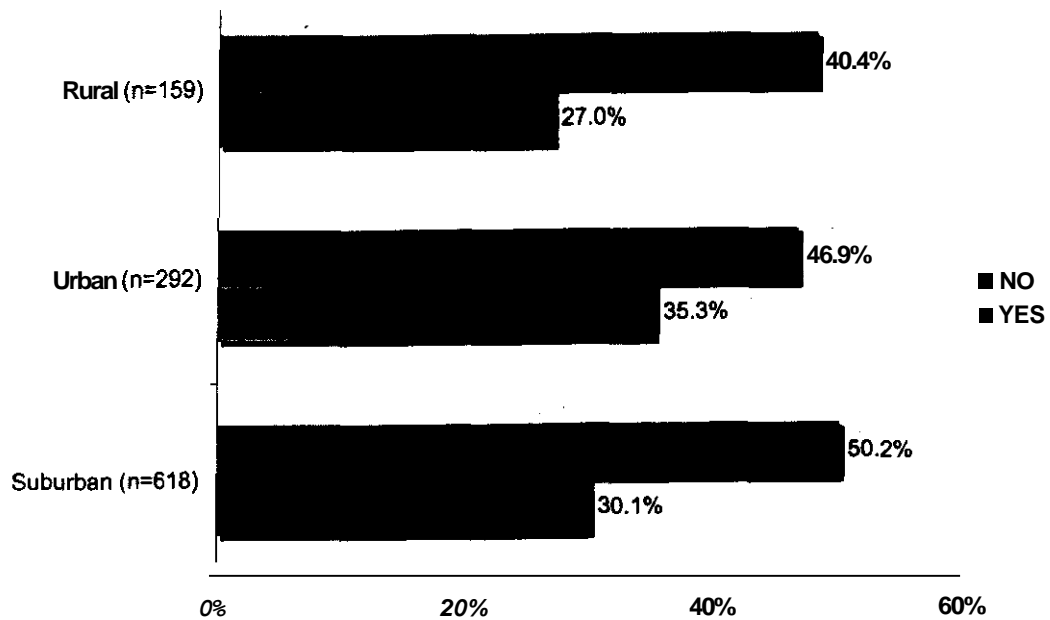
Residence Location

The Consumer Mobility Study yielded no significant correlation between residence location and likelihood to replace landlines with wireless phones. Given that limited wireless coverage was cited as a significant reason for *not* substituting, this suggests that carriers can focus their in-building coverage improvements in urban areas with greater net impact overall.

Figure 8. Residence Location: Likelihood to Replace Landline with a Wireless Phone

Would you consider replacing your landline phone with a wireless phone?

(Base: Has both landline and wireless phone)



Note: "Don't Know" represents balance of responses.

Source: In-Stat, 9/05

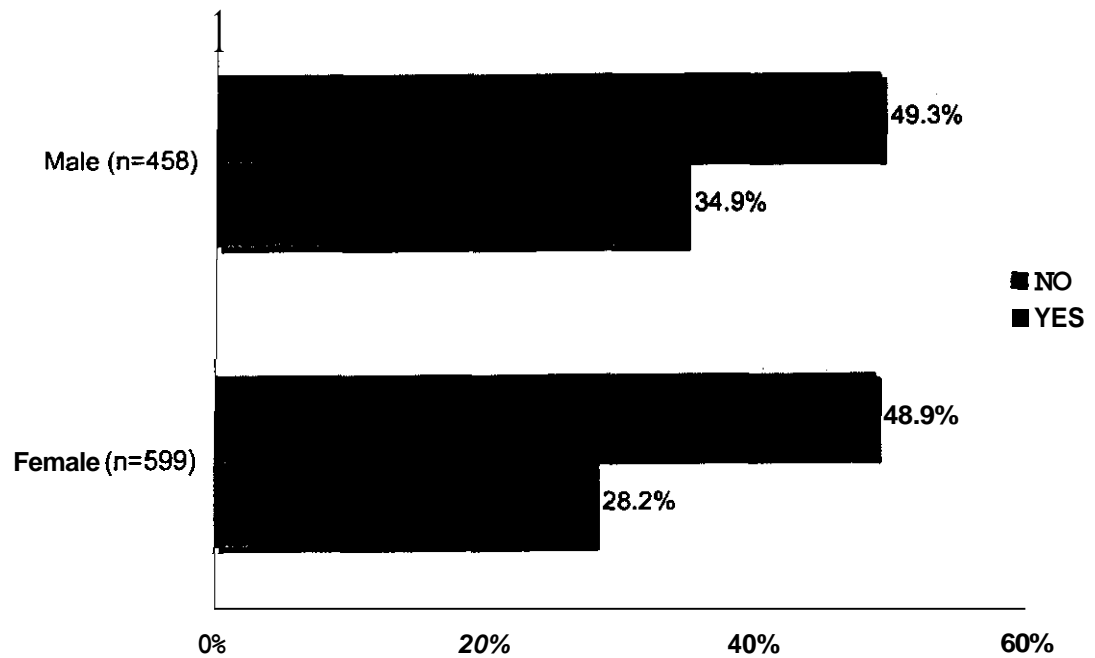
n=1,069

Gender

Male respondents were somewhat more likely than females to be willing to consider replacing their landline with a wireless phone. However, opposition *to* replacement was roughly the same between both gender groups.

Figure 9. Gender: Likelihood to Replace Landline with a Wireless Phone

Would you consider replacing your landline phone with a wireless phone?
(Base: Has both landline and wireless phone)



Note: "Don't Know" represents balance of responses

Source: In-Stat, 9/05

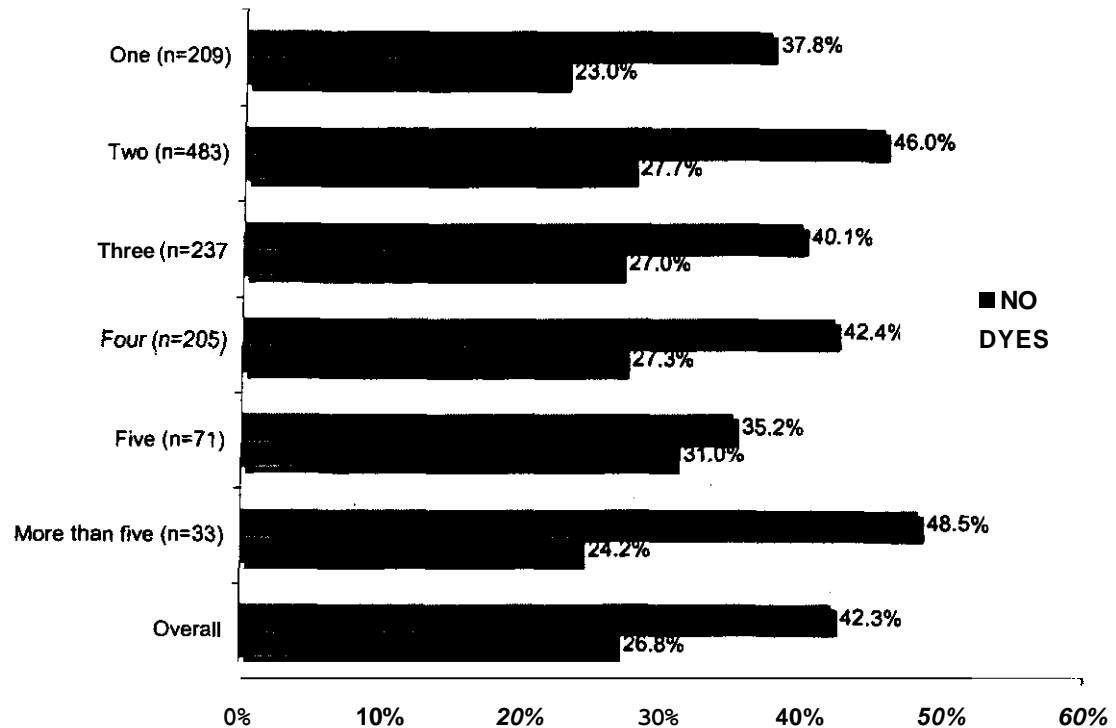
n=1,057

Size of Household

Regardless of household size, all groups were approximately equally likely as the total respondent base to replace their landline with a wireless phone.

Figure 10. Size of Household: Likelihood to Replace Landline with a Wireless Phone

Would you consider replacing your landline phone with a wireless phone?
(Base: Has both landline and wireless phone)



Note: "Don't Know" represents balance of responses.
Source: In-Stat, 9/05

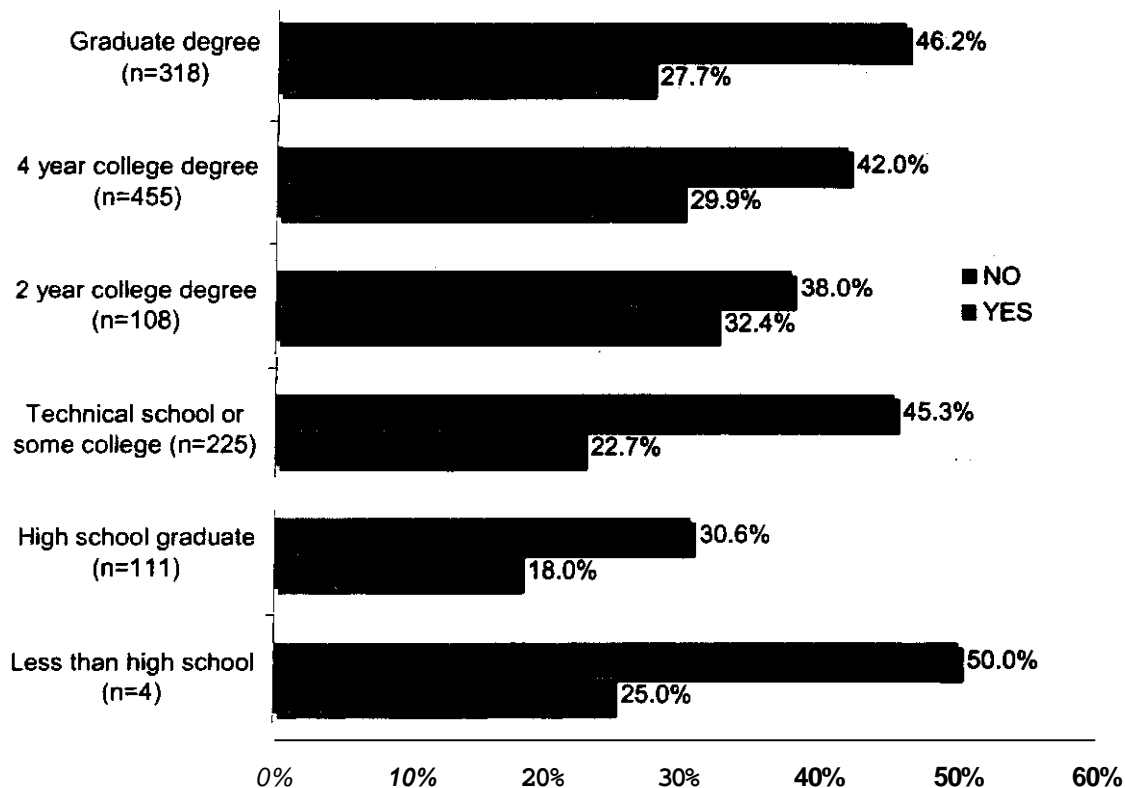
n=1,238

Education Levels

- There was a weak correlation between level of education and willingness to consider replacing the landline with a wireless phone. Respondents with some college or less education (high school graduate, less than high school) had higher disparity between Yes and No respondents.
- However, respondents with graduate degrees showed nearly the same likelihood to replace their landline as those with less than high school education.

Figure 11. Education Levels: Likelihood to Replace Landline with a Wireless Phone

Would you consider replacing your landline phone with a wireless phone?
(Base: Has both landline and wireless phone)



Note: 'Don't Know' represents balance of responses

Source: In-Stat, 9/05

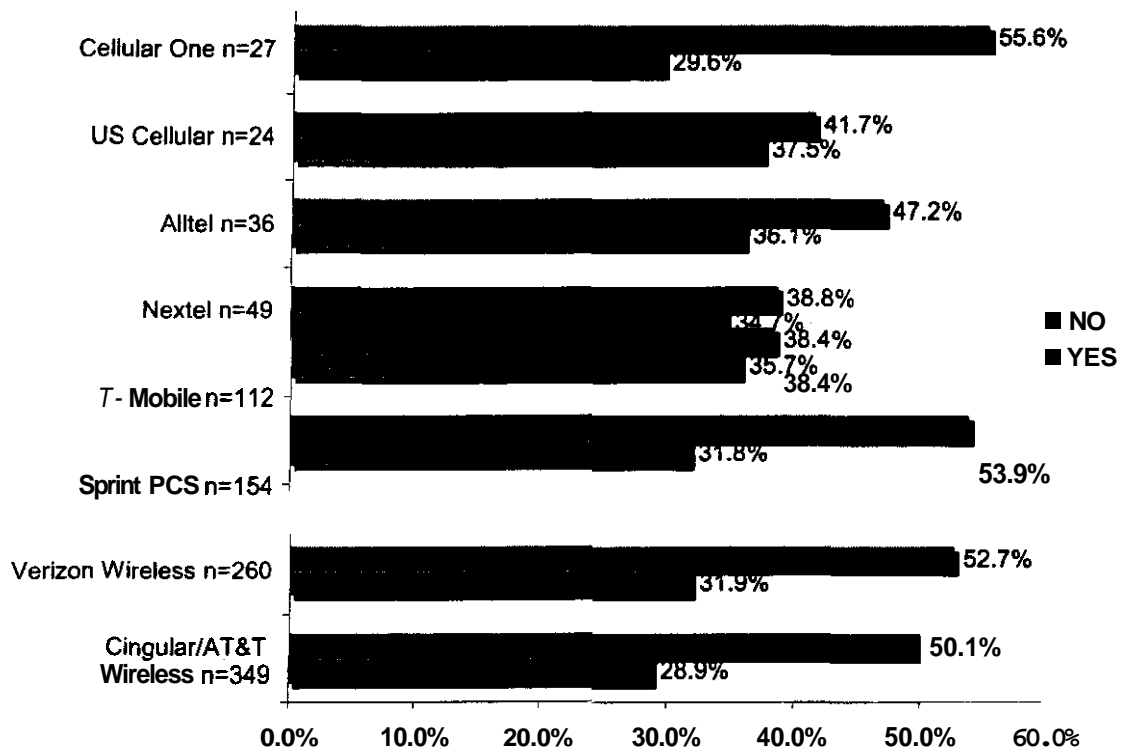
n=1,221

Wireless Carrier Preferences

- Alltel, US Cellular, T-Mobile, and Nextel subscribers show the greatest willingness to replace their landline with a wireless phone. However, results should be viewed with caution due to a small sample size.
- Verizon, Cingular/AT&T Wireless, Sprint PCS, and Cellular One customers were least likely to consider replacing their landline. These companies had the widest disparity between “No” and “Yes” responses, indicating a stronger preference to avoid replacing landline with their wireless phone.

Figure 12. Wireless Carrier Preferences: Likelihood to Replace Landline with a Wireless Phone

Would you consider replacing your landline phone with a wireless phone?
(Base: Has a landline phone)



Note: "Don't Know" represents balance of responses
Source: In-Stat, 9/05

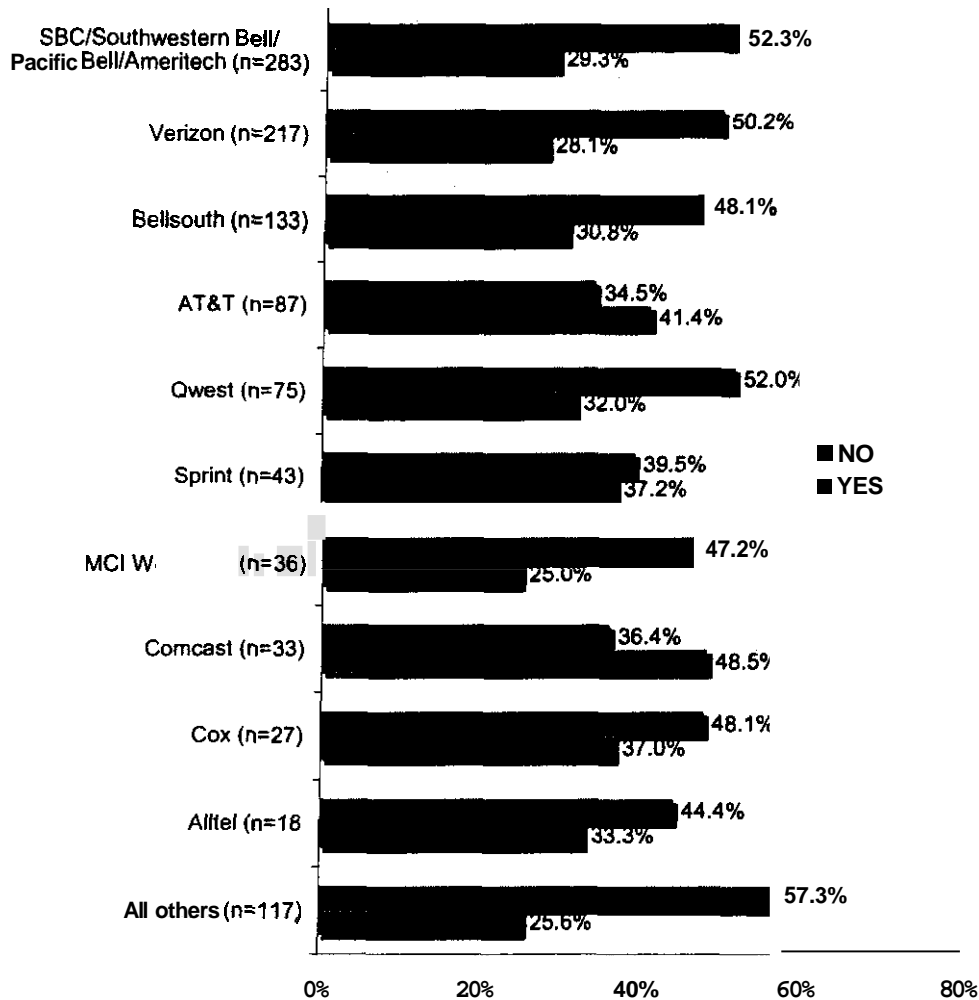
n=1,011

Landline Carrier Relationship

- Landline customers of Comcast, AT&T, Sprint, and **Cox** show the greatest willingness to replace their landline with a wireless phone. Customers of SBC/Southwestern Bell/Pacific Bell/Ameritech and Qwest showed the greatest loyalty to their landline carriers.
- Despite the small sample size, it is interesting to note that the one of the local voice service providers whose customers would switch to wireless is cable operator Comcast, the only non-telco operator on the list. The other is AT&T, which has been attempting to extricate itself from its short-lived residential local access business.

Figure 13. Landline Carrier Relationship: Likelihood to Replace Landline with a Wireless Phone

Would you consider replacing your landline phone with a **wireless** phone?



Note: "Don't Know" represents balance of responses.

Source: In-Stat. 9/05

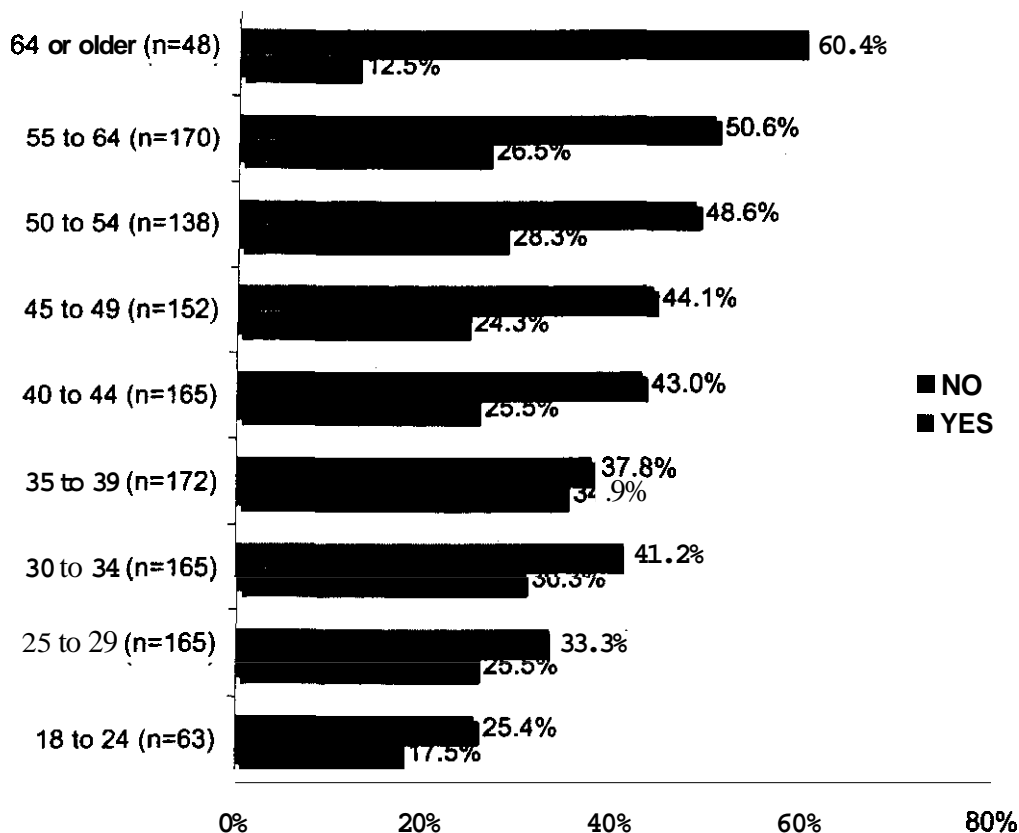
n=1,069

Age Groups: Likelihood to Replace Landline with a Wireless Phone

- The 30–39 age group of respondents was most likely to consider replacing their landline. Generally, as respondents get older, they are more likely to refuse to replace their landline, especially the age group **55** and older.
- The 18–24 year old age group is the least decisive, with **57.1%** answering “Don’t Know” to the question. However, this indicates a marketing opportunity for wireless carriers. Indecisiveness suggests that they are open to suggestion and education. Explaining the benefits of one wireless phone (one bill, potentially lower monthly outlay, convenience, etc.) to this group could result in an increase in wireless usage as they abandon their landline phones.

Figure 14. Age Groups: Likelihood to Replace Landline with a Wireless Phone

Would you consider replacing your landline phone with a wireless phone?
(Base: Has both landline and wireless phone)



Note: “Don’t Know” represents balance of responses.

Source: In-Stat. 9/05

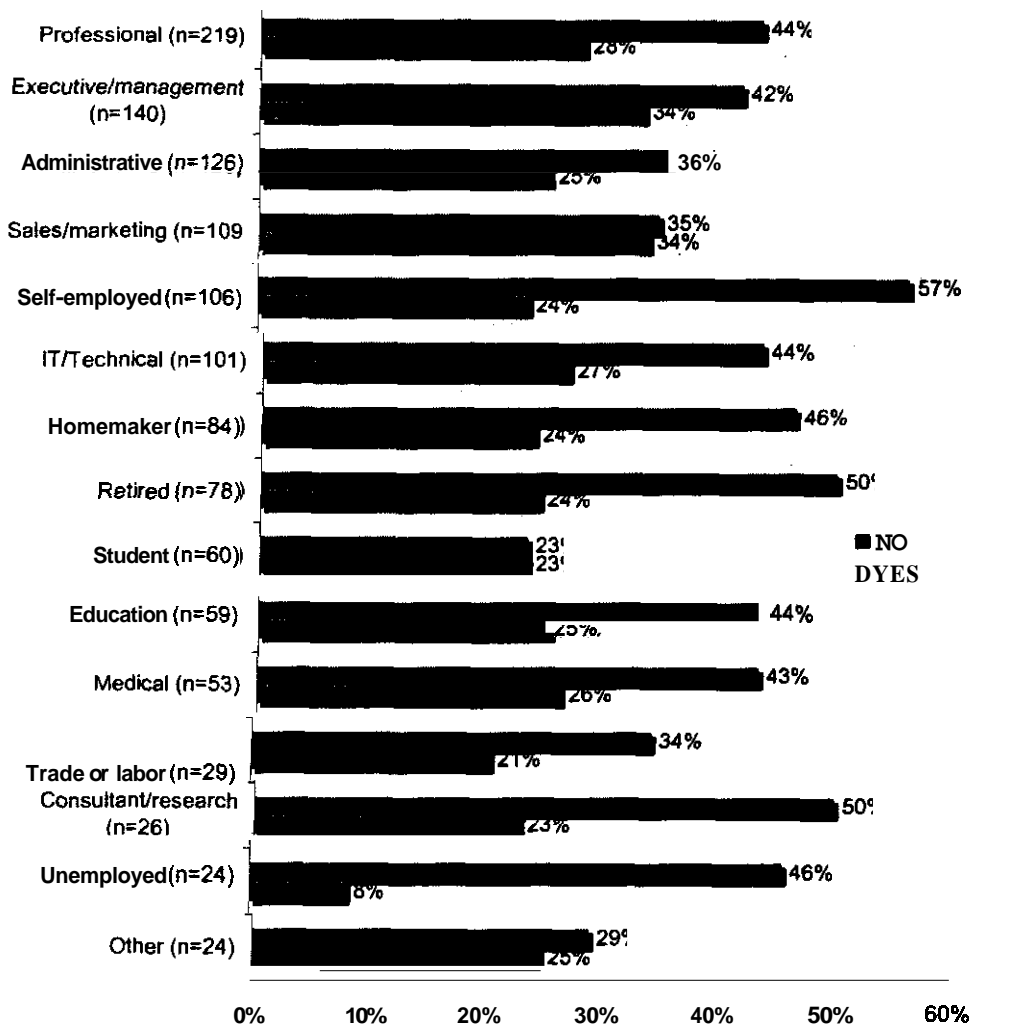
n=1,238

Profession

- Willingness to replace landlines is highest among Executive/management and Sales/marketing professionals. Likelihood to substitute is more evenly spread among most **other** groups, ranging from 23 to 28 percent.
- Consultants, Self-employed, Unemployed, Homemaker, and Retired consumers were the least likely to consider replacing their landlines.
- These results suggest that traditional “road warriors” **are** a prime market for wireless substitution. Carriers can increase minutes of use by encouraging **those** customers to go wireless-only.

Figure 15. Profession: Likelihood to Replace Landline with a Wireless Phone

What Is your occupation?

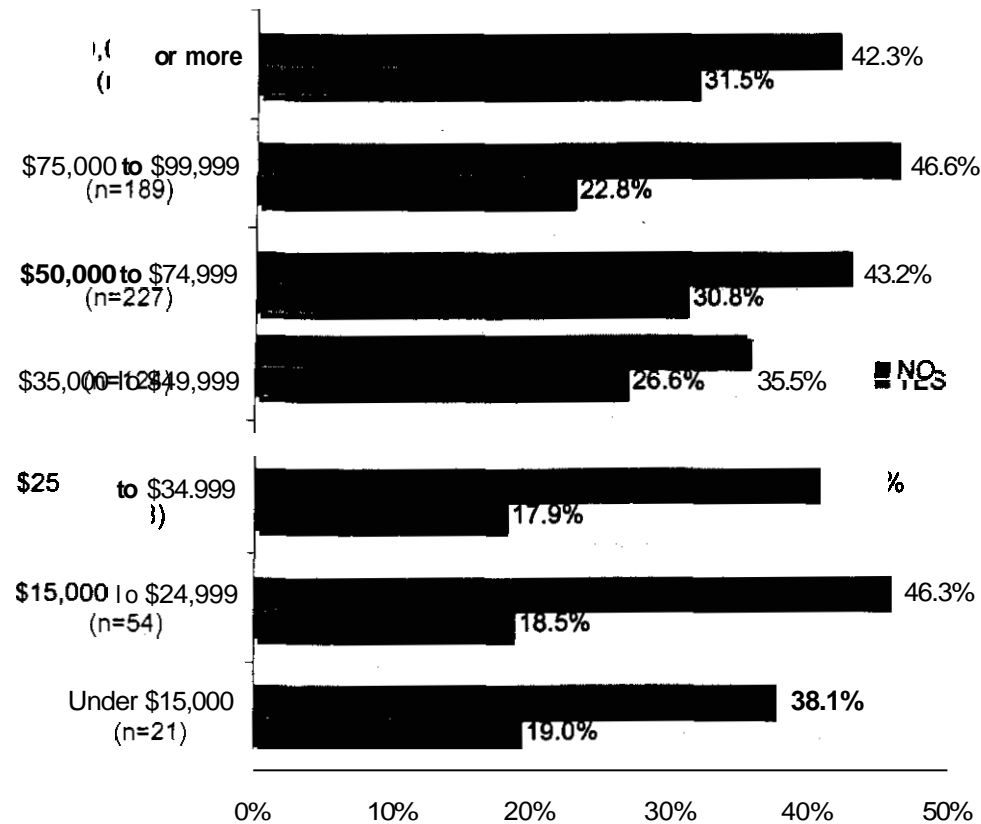


Household Income

A weak correlation exists between household income and the willingness to consider replacing landlines with wireless phones. Respondents with lower income levels (\$34,999 and less) were less likely to consider substitution.

Figure 16. Household Income: Likelihood to Replace Landline with a Wireless Phone

Would you consider replacing your landline phone with a wireless phone?
(Base: Has both landline and wireless phone)



Note: "Don't Know" represents balance of responses.

Source: In-Stat, 9/05

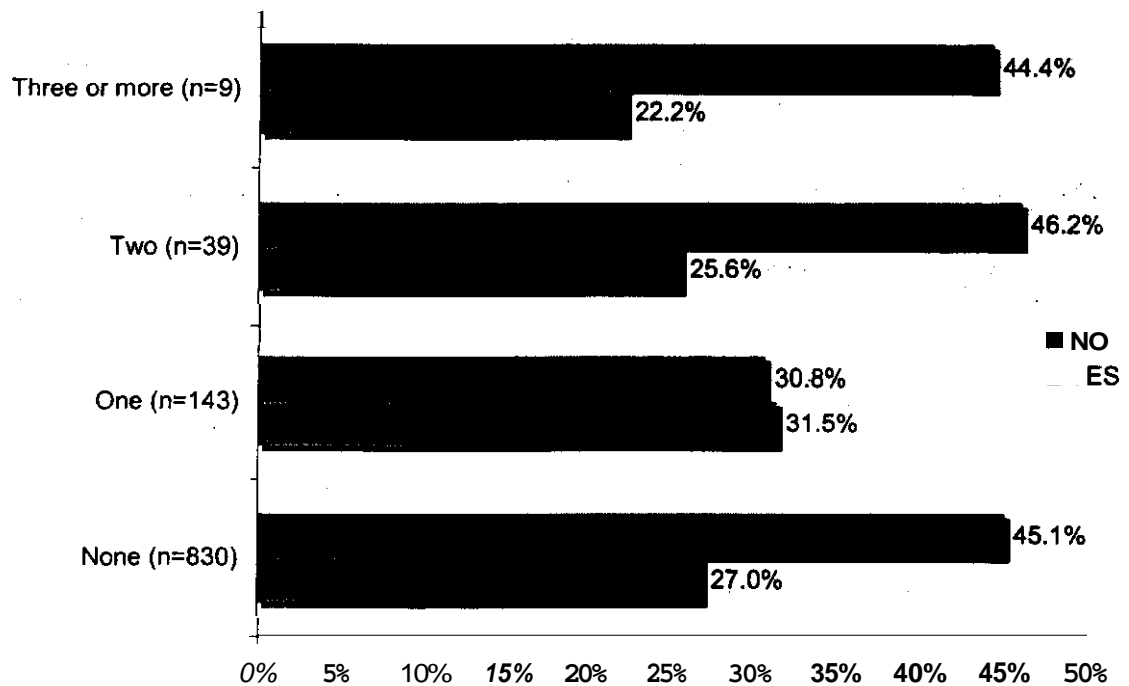
n=991

Teenagers in Household

- Respondents with one teenager (ages 12 to 17) in the household were somewhat more likely than average to consider replacing their landline with a wireless phone.
- Consumers with no teenagers were nearly as likely as the overall base to consider wireless substitution, as were those with two or more teenagers.

Figure 17. Teenagers in Household: Likelihood to Replace Landline with a Wireless Phone

Would you consider replacing your landline phone with a wireless phone?
(Base: Has landline phone, more than one person living in household.)



Note: "Don't Know" represents balance of responses

Source: In-Stat, 9/05

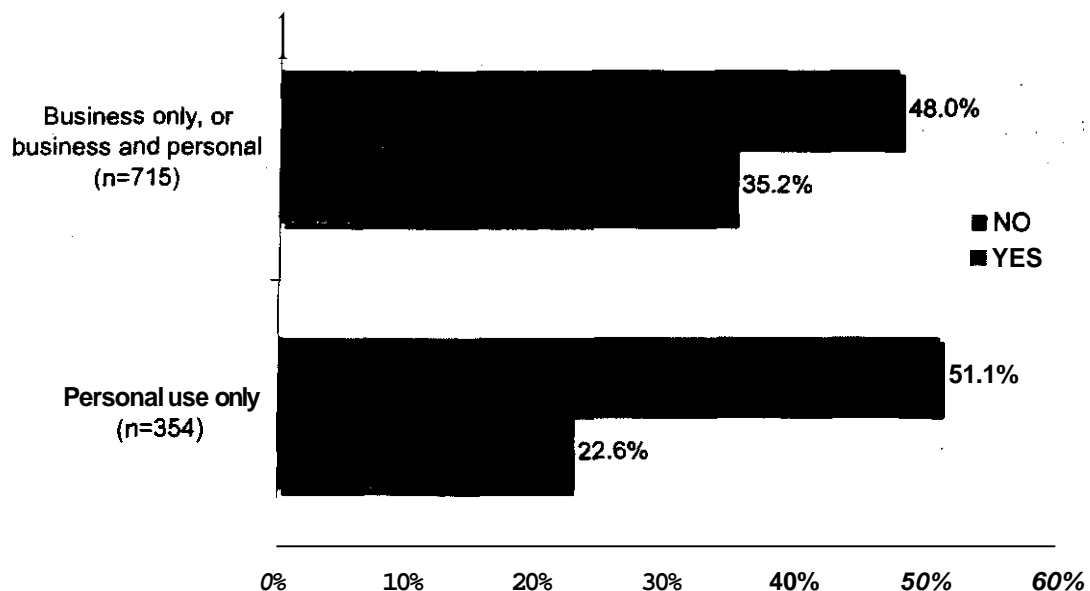
n=1,021

Personal and Business Use

- Respondents who use their wireless phone for both personal and business purposes were much more likely to consider replacing their landline. This is the first of several data points that suggest that increasing familiarity with wireless infers willingness to substitute.
- Combining this with earlier results regarding Executive/management and Sales/marketing professionals, suggests an obvious profile of a likely customer to substitute. Carriers can market to this "traditional" customer to encourage substitution and thereby increase the customer's dependence on wireless.

Figure 18. Personal and Business Use: Likelihood to Replace Landline with a Wireless Phone

Would you consider replacing your landline phone with a wireless phone?
(Base: Has both landline and wireless phone)



Note: "Don't Know" represents balance of responses.
Source: In-Stat, 9/05

n=1,069